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SUMMARY: THIS REPORT, A CONTINUATION IN OUR SERIES ON CURRENT

DOMESTIC ECONOMIC SITUATION, FOCUSSES ON RECENT PRICE DEVELOPMENTS. RETAIL PRICES OF MANY FOODSTUFFS CONTINUE TO DECLINE. IN THE PAST TEN DAYS THE GOVERNMENT HAS INCREASED THE PRICES OF COAL, STEEL, ALUMINUM, ELECTRICITY, KEROSENE AND OTHER PETROLEUM PRODUCTS, AS WELL AS PORT CHARGES AND COASTAL SHIPPING TARIFFS. THE LONG-OVERDUE PRICE INCREASES SHOULD ENCOURAGE OUTPUT IN SOME INDUSTRIES AND REDUCE THE DEFICITS OF SEVERAL PUBLIC SECTOR ENTERPRISES. END SUMMARY.

1. WHOLESALE PRICES OF FOODSTUFFS HAVE CONTINUED TO DECLINE, AND RETAIL PRICES HAVE RESPONDED TO SOME EXTENT. FREE SALE PRICES OF SUCH ITEMS AS SUGAR, WHEAT AND HYDROGENATED PEANUT OIL USED FOR COOKING HAVE EXPERIENCED MODERATE REDUCTIONS. PRICES OF OTHER GOODS, SUCH AS CHEMICALS, HAVE ALSO GONE DOWN. THE BASIC REASONS FOR THIS TREND, WHICH IS CONTRARY TO NORMAL EXPECTATIONS OF PRICE INCREASES IN JUNE-JULY, SEEM TO BE PROSPECTS FOR A GOOD MONSOON THIS YEAR AND DISHOARDING OF STOCKS BECAUSE OF FEAR OF PENALTIES UNDER THE GOVERNMENT'S EMERGENCY POWERS.

2. ON THE AGRICULTURAL FRONT, THE GOI HAS REDUCED FERTILIZER PRICES (GENERALLY BETWEEN 4 AND 8 PERCENT) IN AN ATTEMPT TO INCREASE FERTILIZER USE AND THUS BOOST AGRICULTURAL OUTPUT. ON THE OTHER HAND, MINISTER OF AGRICULTURE JAGJIVAN RAM HAS ASKED STATE GOVERNMENTS TO REVIEW AND, IF NECESSARY, REVISE UPWARD IRRIGATION RATES TO MAKE THEM MORE REALISTIC WITH A VIEW TO REDUCING STATE DEFICITS IN THIS AREA. THE GOVERNMENT IS APPARENTLY INTENDING TO RECOMMEND THAT THE STATES INCREASE MINIMUM WAGES FOR THE 47 MILLION AGRICULTURAL WORKERS. (THEY RECEIVE ONLY SEVERAL RUPEES PER DAY IN MOST STATES; THE HIGHEST PAID AGRICULTURAL LABORERS ARE IN THE PUNJAB WHERE THEY NOW GET RS. 7.5 PER DAY. WHETHER INCREASED MINIMUM WAGES WILL BE ENFORCED REMAINS TO BE SEEN. ALSO, THE CONGRESS WORKING COMMITTEE HAS PROPOSED THAT GOVERNMENT FUNDS TO THE STATES BE USED FOR LOW COST, TEMPORARY (3 TO 5 MONTHS) PRODUCTION LOANS TO MARGINAL FARMERS. THIS PROPOSAL IS INTENDED TO COVER THE NEED FOR RURAL LOANS IN THE WAKE OF THE GOVERNMENT'S DECISION TO GRANT A MORATORIUM ON RURAL INDEBTEDNESS THAT MAY REDUCE FUTURE LOANS BY VILLAGE MONEYLENDERS. WE ARE AS YET UNCERTAIN ABOUT THE RURAL CREDIT SITUATION, INCLUDING WHEN (AND IF) THE PROPOSED NEW 50 REGIONAL BANKS WILL BECOME OPERATIVE.

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3. THE GOVERNMENT INCREASED PRICES OF PETROLEUM PRODUCTS THAT ARE ITEMS OF MASS CONSUMPTION. PRICE OF KEROSENE WAS RAISED 5 PERCENT, LPG OR DOMESTIC COOKING GAS, 10 PERCENT; AND HIGH SPEED DIESEL, 7.6 PERCENT. THESE RATHER MARGINAL PRICE HIKES, WHICH WERE LESS THAN THOSE RECOMMENDED BY OIL PRICES COMMITTEE, ARE SUPPOSED TO COVER (MORE OR LESS) THE ANNUAL LOSS OF RS. 1.4 BILLION NOW BEING INCURRED BY REFINERIES.

4. IN ADDITION TO HIGHER PRICES FOR STEEL AND COAL (REFTEL), THE GOI HAS ANNOUNCED A NEW POLICY FOR THE ALUMINUM SECTOR. ALUMINUM PRODUCERS WILL NOW HAVE TO SUPPLY 55 PERCENT OF THEIR OUTPUT TO THE GOI AND GOVERNMENT-AUTHORIZED END USERS AT CONTROLLED (15 PERCENT ABOVE COST OF PRODUCTION) PRICES (IN CONTRAST TO ALL OF IT PREVIOUSLY), AND THE REMAINING 45 PERCENT ON THE OPEN MARKET. ELECTRICAL POWER RATES TO ALUMINUM INDUSTRY ARE BEING MORE THAN DOUBLED (ON THE AVERAGE), AND EXCISE DUTY ON ALUMINUM HAS BEEN INCREASED. AS A RESULT, WE EXPECT THAT ALUMINUM PRICES WILL GO UP BY AT LEAST 50 PERCENT. GOVERNMENT HOPES IN THIS WAY TO INCREASE PROFITS OF ELECTRICITY BOARDS AND RAISE ALUMINUM OUTPUT. A SEPARATE REPORT ON THESE DEVELOPMENTS WILL BE SENT LATER.

5. TARIFF RATES HAVE BEEN RAISED BY 30 TO 35 PERCENT AT MAJOR PORTS (INCLUDING BOMBAY, CALCUTTA, AND MADRAS). IT IS HOPED THAT THE INCREASED REVENUES WILL MAKE THESE PORTS LARGELY SELF-SUPPORTING. COASTAL SHIPPING RATES HAVE BEEN INCREASED FROM 20 TO 30 PERCENT FOR SALT (A MAJOR COMMODITY) AND OTHER GOODS. COAL BEING SHIPPED FROM CALCUTTA TO MADRAS WILL BE SUBJECT TO A FIVE PERCENT RATE RISE. THE PURPOSE OF THIS RATE REVISION IS TO REVERSE THE TREND OF DECLINING COASTAL SHIPMENTS OF CARGO AND INCREASE THIS TRADE.

6. IN THE ANTI-CORRUPTION FIELD, MINISTER OF FINANCE SUBRAMANIAM SAID THAT THE GOI WAS CONSIDERING LEGISLATION FOR THE SUMMARY ACQUISITION OF PROPERTY PURCHASED WITH MONEY MADE BY ILLEGAL MEANS. HE NOTED THAT SPECIAL SQUADS HAD ALREADY BEEN SET UP TO INVESTIGATE THE "LEGITIMACY" OF LUXURIOUS HOUSES. SUBRAMANIAM WARNED THAT STERN STEPS HAD ALREADY BEEN TAKEN AGAINST SMUGGLERS AND BLACK MARKETEERS, AND HOPED THAT ELIMINATION OF UNNECESSARY GOVERNMENT CONTROLS WOULD REDUCE ILLEGAL ECONOMIC ACTIVITIES. HE LIMITED OFFICIAL USE

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ALSO SAID THAT SIMPLIFICATION OF TAX STRUCTURE SHOULD CUT DOWN TAX EVASION.

7. THE 21 POINT PROGRAM IS BASICALLY IN THE "PLANNING" STAGE. SUBRAMANIAM HINTED THAT LEGISLATION PUTTING A CEILING ON URBAN LAND HOLDINGS WILL BE PASSED BY THE UPCOMING MONSOON SESSION OF PARLIAMENT. CONGRESS PARTY CADRES MAY HELP THE BUREAUCRACY IN ATTEMPTING TO IMPLEMENT PARTS OF THE ECONOMIC PROGRAM. GENERAL REACTION SO FAR TO THE "NEW" PROPOSALS SEEMS TO BE SKEPTICAL, BUT THERE IS ALSO FEELING THAT EMERGENCY POWERS COULD RESULT IN SOME ACTION ON ECONOMIC FRONT. BUSINESSMEN AND OTHERS ARE PLEASED BY EMPHASIS PLACED ON A MORE DISCIPLINED AND PRODUCTIVE LABOR FORCE, A (SOMEWHAT) MORE EFFICIENT BUREAUCRACY, AND A NEED FOR PRODUCTION INCENTIVES.

8. COMMENT: THE GOVERNMENT IS EVIDENTLY TAKING ADVANTAGE OF ITS EMERGENCY POWERS TO CARRY OUT SOME LONG-OVERDUE AND POLITICALLY UNPOPULAR PRICE RISES. NOT ONLY SHOULD THEY PROVIDE NEEDED INCENTIVES TO BRING ABOUT GREATER OUTPUT, BUT ALSO THEY SHOULD REDUCE DEFICITS OF SOME PUBLIC ENTERPRISES. HOWEVER, THE INCREASE IN THE PRICES OF COAL AND DIESEL OIL IN PARTICULAR WILL HAVE IMPORTANT REPERCUSSIONS ON OTHER SECTORS OF THE ECONOMY, NOTABLY RAILWAYS AND ELECTRICAL POWER PLANTS. (HOWEVER, THE GOVERNMENT HAS ASKED THE STATE ELECTRICITY BOARDS TO ABSORB THESE PRICE HIKES IN ORDER TO MAINTAIN PRESENT ELECTRICITY RATES). HIGHER COAL PRICES WILL ALSO INCREASE THE MANUFACTURING COSTS OF SUCH ITEMS AS PAPER, CEMENT, CAUSTIC SODA AND ENGINEERING GOODS. ON THE OTHER HAND, THE GOI HAS LIMITED PRICE INCREASES OF KEROSENE AND DOMESTIC COOKING GAS IN ORDER TO PROTECT LOWER INCOME GROUPS. SAXBE

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